Mt. Ascutney Hospital & Health Ctr

Fiscal Year 2016 budget analysis

Report Date: 8/18/2015

Mt. Ascutney Hospital & Health Ctr

Kevin Donovan - CEO	Dave Sanville - CFO

Summary Budget to Budget Increase

Note: The GMCB received a letter (attached) from Mt. Ascutney that describes the need to change their budget at a later date this fall. They are not ready for a resubmission because information is still outstanding and requires further discussion with Dartmouth Hitchcock Medical Center. They will discuss this at the hearing.

The 2016 budget shows a 0.9% **decrease** from the 2015 budget. The hospital is seeing changes in various lines of business as a result of their affiliation with DHMC.

Utilization is budgeted to decline (-6.8%). The budget includes a reduction of 6 non-MD FTEs and 2 physicians. Mt. A. productivity trends are mixed, but rank favorable.

The operating surplus is budgeted at 0.1% of net revenues; lower because of changing business lines and trying to keep prices down. The balance sheet is in a stable position and showing some improvement. The latest financial projections for 2015 show lower NPR and an operating deficit.

The commercial cost shift is increased by $3.6 million. This is a combination of $2.9 million shifted from Medicaid and the balance from Medicare and bad debt/free care.

Issues to Address at the Hearing

Discuss the recent letter submitted to the GMCB and provide any updates since submission of that letter.

Discuss the affiliation with DHMC and the major shifts in patient care and services that are occurring. Describe the impact on the budget.

Discuss the trends being seen in bad debt and free care.

Explain the various changes in utilization presented in the budget.

	2014A	2015B	2015P	2016B	B15-B16 Change	B15-B16 % Change
Net Patient Care Revenue	**$ 45,789,349**	**$ 48,508,891**	**$ 46,740,765**	**$ 48,060,871**	**$ (448,020)**	-0.9%
Other Operating Revenue	$ 2,931,428	$ 3,346,230	$ 2,742,110	$ 2,589,908	$ (756,322)	-22.6%
Total Operating Revenue	$ 48,720,777	$ 51,855,121	$ 49,482,875	$ 50,650,779	$ (1,204,342)	-2.3%
Total Expenses	**$ 49,184,582**	**$ 51,096,609**	**$ 49,629,330**	**$ 50,599,108**	**$ (497,501)**	-1.0%
Net Operating Income	**$ (463,805)**	**$ 758,512**	**$ (146,455)**	**$ 51,671**	**$ (706,841)**	-93.2%
Operating Margin %	-1.0%	1.5%	-0.3%	0.1%	-1.4%	

Mt. Ascutney Hospital & Health Ctr

Key Indicators	Actual 2013	Actual 2014	Budget 2015	Projected 2015	Budget 2016	Actual 2014-Budget 2015	Budget 2015-Budget 2016
Utilization							
Acute Care Ave Daily Census	3.5	3.1	3.5	3.4	3.5	0.4	0.0
Total Average Daily Census	41	24	25	27	27	1	2.4
Acute Average Length of Stay	3.7	3.2	3.2	3.5	3.5	0.0	0.3
Acute Admissions	352	350	405	355	366	55	-39.0
Total Beds (Staffed)	58	33	33	33	33	0	0.0
Adjusted Admissions	6,625	7,675	7,795	7,336	7,264	120	-531.2
Adjusted Days	24,259	24,451	24,597	25,935	25,423	146	825.7
Capital							
Age of Plant	8.3	9.6	8.9	9.9	13.7	-0.7	4.8
Long Term Debt to Capitalization	36.2%	34.0%	32.7%	38.2%	35.7%	-1.3%	3.0%
Capital Expenditures to Depreciation	19.5%	61.0%	69.2%	49.7%	105.5%	8.2%	36.3%
Debt per Staffed Bed	448,666	693,155	696,618	775,123	700,820	3,464	4,201
Net Prop, Plant & Equip per Staffed Bed	210,378	349,973	482,878	460,218	419,049	132,905	-63,829
Debt Service Coverage Ratio	2.6	3.1	4.8	3.8	2.9	1.6	-1.8
Revenue							
Deduction %	40.7%	43.0%	40.5%	43.8%	46.3%	-2.5%	5.8%
Bad Debt % of Gross Revenue	4.2%	1.0%	2.4%	2.7%	3.0%	1.4%	0.6%
Free Care % of Gross Revenue	1.1%	1.6%	0.9%	0.9%	1.0%	-0.7%	0.1%
Operating Margin %	0.0%	-1.0%	1.5%	-0.3%	0.1%	2.4%	-1.4%
Total Margin %	2.2%	0.4%	2.0%	0.6%	1.0%	1.6%	-1.1%
All Net Patient Revenue % of Gross Rev	59.0%	56.3%	59.0%	55.7%	53.4%	2.7%	-5.6%
Medicare Net Patient Revenue % of Gross Rev (incl Phys)	65.3%	57.7%	63.1%	57.8%	56.8%	5.4%	-6.3%
Medicaid Net Patient Revenue % of Gross Rev (incl Phys)	39.8%	37.5%	62.0%	36.6%	31.8%	24.5%	-30.1%
Comm/self pay Net Patient Revenue % of Gross Rev (incl Phys)	56.9%	61.1%	50.8%	61.1%	56.6%	-10.3%	5.8%
Productivity							
Adjusted Admissions Per FTE	19.9	24.6	24.4	23.6	23.1	-0.2	-1.3
FTEs per 100 Adj Discharges	5.0	4.1	4.1	4.2	4.3	0.0	0.2
Overhead Expense w/ fringe, as a % of Total Operating Exp	32.7%	26.0%	36.2%	40.7%	46.8%	10.2%	10.6%
FTEs Per Adjusted Occupied Bed	5.0	4.7	4.7	4.4	4.5	0.1	-0.2
Cost							
Cost per Adjusted Admission	7,350	6,408	6,555	6,765	6,966	147	411
Salary & Benefits per FTE - Non-MD	67,512	73,385	74,356	73,892	78,227	971	3,871
Compensation Ratio	63.6%	63.2%	59.5%	62.9%	64.0%	-3.7%	4.6%
Capital Cost % of Total Expense	6.5%	6.1%	6.4%	6.4%	5.6%	0.3%	-0.9%
Liquidity							
Current Ratio	1.7	2.2	1.8	1.9	1.9	(0.4)	0.1
Days Cash on Hand	138.1	138.5	140.5	143.6	140.8	2.0	0.3
Cash to Long Term Debt	1.9	2.1	1.9	1.7	1.8	(0.2)	(0.1)
Payer							
DSH % of Total NPR	0.5%	1.2%	0.8%	0.8%	0.6%	-0.4%	-0.2%
Medicaid % of Total NPR (incl. DSH)	8.0%	8.6%	11.9%	8.7%	7.9%	3.2%	-3.9%
Medicare % of Total NPR (incl. DSH)	54.7%	50.8%	59.9%	51.9%	53.6%	9.1%	-6.3%
Commercial % of Total NPR (incl. DSH)	36.8%	39.4%	27.5%	39.3%	37.9%	-11.9%	10.4%
Employed							
Non-MD FTEs	333.7	312.5	320.0	311.5	314.4	7.5	(5.6)
Physician FTEs	22.0	21.1	24.0	23.1	21.6	2.9	(2.4)
Travelers	-	-	-	-	-	-	-
Outpatient							
All Outpatient Visits	94,646	80,503	85,138	22,934	23,059	4,635	(62,079)
Operating Room Procedure	-	-	1,818	1,805	1,939	1,818	121
Observation Units	172	209	242	171	180	33	(62)

Intro: **Mt. Ascutney sent a letter to the GMCB on 8/13/2015 indicating a possible change to their budget in the near future. Briefly describe an update regarding your budget (see attached letter) and the expected timeline for a possible budget re-submission. The following questions will address the budget as submitted on July 1st.**

1) The hospital is submitting a 5.7% increase in overall rates.

a) Will that amount, on average, be the increase that commercial payers will be paying? Describe the different reimbursement agreements you may have when contracting with commercial payers.

b) Describe the various factors Mt. Ascutney must consider when setting their price structure.

2) Mt. Ascutney has submitted a 0.9% NPR **decrease.** Also, a small operating surplus is budgeted, as the narrative states they have purposefully moved away from **".....low volume, high margin services....",** presumably as they adjust to their affiliation with DHMC.

a) Describe the affiliation with DHMC and the patient and service shifts that are occurring.

b) Discuss the effects these changes have on the hospital budget.

3) The narrative discusses the plan to possibly avoid the "cadillac tax" by changing the benefit structure for employees and shifting those funds to salaries. Discuss this plan and the considerations the hospital must review.

4) Bad debt and free care levels are increasing, unlike what we have seen in most hospitals. They were 2.6% of gross revenues in 2014, 3.6% in 2015, and are budgeted at 4.0% in 2016.

a) Describe the recent changes you have seen in terms of caseloads, patient coverages, billing disputes, etc. that might be influencing the changes. Is there any evidence of an enrollment shift to Medicaid? Describe any changes in reporting that are influencing this.

b) What would your rate request have been, all things being equal, if your bad debt and free care levels remained at the 2015

5) The 2015 projection shows lower NPRs and **a net operating deficit of $146,000** vs. a budget of $759,000. Are these projections still valid? If not, describe any material changes.

6) Is Mt. Ascutney affected by the CMS rule changes that will lower Medicare reimbursement related to the disallowance of the provider tax?

a) Can you quantify, if applicable, the loss of revenue in the 2016 budget?

b) What is the scope of this liability? How are you accounting for this potential liability? Is this problem unique to Critical Access Hospitals?

7) The narrative discusses volume increases being seen in Medicare and Medicaid during 2015. However, the net patient revenue schedules shows over a $5 million decrease in these areas and a large $4.9 million increase in commercial NPRs. Can you clarify these changes?

8) The cost shift change (as calculated in the budget tool) shows a large increase to commercial payers $3.6 million that is primarily from Medicaid ($2.9 million). Do you agree with this finding or is this change related to reporting changes in the 2015-16 budgets?

Mt. Ascutney Hospital & Health Ctr

PROFIT & LOSS STATEMENT

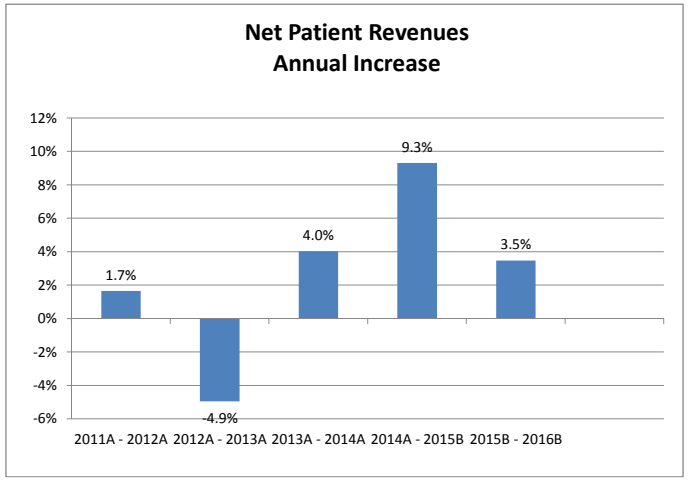
	2014A	2015B	2015P	2016B	2015B-2016B	2015B-2016B
REVENUES						
INPATIENT	$3,665,853	$4,238,156	$4,027,524	$4,509,558	$271,402	6.4%
OUTPATIENT	$43,705,266	$41,995,870	$43,523,624	$46,891,591	$4,895,721	11.7%
PHYSICIAN	$18,115,727	$18,836,680	$18,843,694	$19,602,443	$765,763	4.1%
CHRONIC REHAB	$8,906,602	$10,499,093	$9,903,490	$10,804,002	$304,909	2.9%
SNF/ECF	$0	$0	$0	$0	$0	0.0%
SWING BEDS	$5,996,704	$6,000,045	$6,930,984	$7,689,109	$1,689,064	28.2%
GROSS PATIENT CARE REVENUE	$80,390,152	$81,569,844	$83,229,316	$89,496,703	$7,926,859	9.7%
DISPROPORTIONATE SHARE PAYMENTS	$533,586	$376,571	$384,140	$290,410	-$86,161	-22.9%
BAD DEBT	-$770,772	-$1,943,472	-$2,246,150	-$2,684,903	-$741,431	-38.1%
FREE CARE	-$1,280,926	-$766,950	-$772,987	-$894,968	-$128,018	-16.7%
GRADUATE MEDICAL EDUCATION	$0	$0	$0	$0	$0	0.0%
DEDUCTIONS FROM REVENUE	-$33,082,691	-$30,727,102	-$33,853,554	-$38,146,371	-$7,419,269	-24.1%
NET PATIENT CARE REVENUE	$45,789,349	$48,508,891	$46,740,765	$48,060,871	-$448,020	-0.9%
OTHER OPERATING REVENUE	$2,931,428	$3,346,230	$2,742,110	$2,589,908	-$756,322	-22.6%
TOTAL OPERATING REVENUE	$48,720,777	$51,855,121	$49,482,875	$50,650,779	-$1,204,342	-2.3%
OPERATING EXPENSE						
TOTAL OPERATING EXPENSE	49,184,582	51,096,609	49,629,330	50,599,108	-$497,501	-1.0%
NET OPERATING SURPLUS (LOSS)	-$463,805	$758,512	-$146,455	$51,671	-$706,841	-93.2%
NON-OPERATING REVENUE	$679,987	$303,771	$442,000	$446,000	$142,229	46.8%
EXCESS (DEFICIT) OF REVENUE OVER EXPENSE	$216,182	$1,062,283	$295,545	$497,671	-$564,612	-53.2%

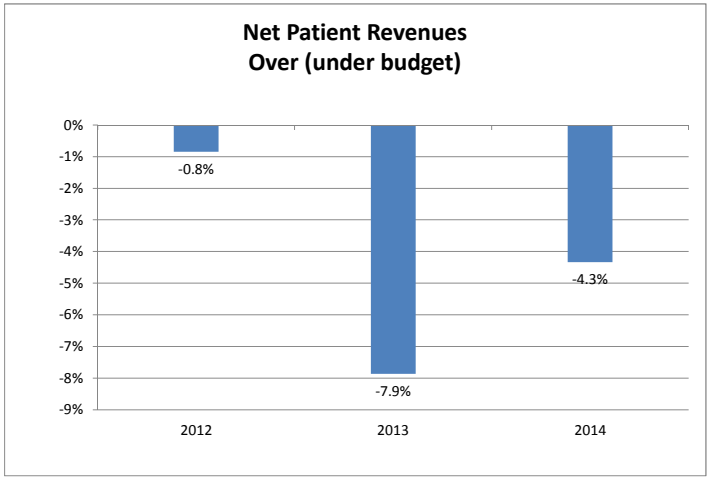
Physician revenue activity is included in the Outpatient revenue line. GMCB staff are working with hospitals to consistently align and report the information.

Unfavorable changes in bad debt and free care will be discussed.

Higher expenses are driven primarily by fringe benefits and physician salaries.

A minimal operating surplus has been budgeted as Mt. Ascutney is budgeting to stablilize many recent changes - future plans are to strive for a 2% operating surplus.





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NET PATIENT REVENUE PAYER MIX

Payer mix describes the reimbursement and patient change that occurs from year to year.

Net Patient Revenue - All	Bud 15 Total	Bud 16 Total	Change
Disproportionate share	$ 376,571	$ 290,410	$ (86,161)
Medicaid	$ 5,751,238	$ 3,813,549	$ (1,937,689)
Medicare	$ 29,055,562	$ 25,762,406	$ (3,293,156)
Commercial/self pay/Wcomp	$ 13,325,520	$ 18,194,506	$ 4,868,986
TOTAL	$ 48,508,891	$ 48,060,871	$ (448,020)
			-0.9%

NPR shows a 0.9% decrease from the 2015 budget. This decrease can be described as follows:

		Millions	% Share
Rate Increase	$	2.5	5.1%
Physician Practice Transfers	$	-	0.0%
Bad Debt/Free Care Improvement	$	(0.9)	-1.8%
Disproportionate Share Loss	$	(0.1)	-0.2%
Utilization Gain/Loss	$	(0.6)	-1.2%
Health Care Reform Investments	$	-	0.0%
Other Change	$	(1.4)	-2.9%
	$	(0.4)	-0.9%

This schedule presents net patient revenue change for the hospital. Essentially, this is a summary of who will pay the bill for the increases in the budget.

The 2016 budget shows a 0.9% **decrease o**ver the 2015 budget. There are significant changes in chemotherapy, infusion, and swing bed services. The hospital will discuss this at the hearing.

Favorable changes in utilization were offset some by a reduction in disproportionate share.

Mt. Ascutney Hospital & Health Ctr

NET PATIENT REVENUE PAYER MIX

Payer mix describes the reimbursement and patient change that occurs from year to year.

Net Patient Revenue - Hospital	Bud 15 Total	Bud 16 Total	Change
Disproportionate share	$ 376,571	$ 290,410	$ (86,161)
Medicaid	$ 4,064,917	$ 1,651,830	$ (2,413,087)
Medicare	$ 21,712,026	$ 19,648,373	$ (2,063,653)
Commercial/self pay/Wcomp	$ 7,290,542	$ 11,353,290	$ 4,062,748
TOTAL	$ 33,444,056	$ 32,943,903	$ (500,153)

Net Patient Revenue - Physician	Bud 15 Total	Bud 16 Total	Change
Disproportionate share			$ -
Medicaid	$ 1,686,321	$ 2,161,719	$ 475,398
Medicare	$ 7,343,536	$ 6,114,033	$ (1,229,503)
Commercial/self pay/Wcomp	$ 6,034,978	$ 6,841,216	$ 806,238
TOTAL	$ 15,064,835	$ 15,116,968	$ 52,133

Net Patient Revenue - All	Bud 15 Total	Bud 16 Total	Change
Disproportionate share	$ 376,571	$ 290,410	$ (86,161)
Medicaid	$ 5,751,238	$ 3,813,549	$ (1,937,689)
Medicare	$ 29,055,562	$ 25,762,406	$ (3,293,156)
Commercial/self pay/Wcomp	$ 13,325,520	$ 18,194,506	$ 4,868,986
TOTAL	$ 48,508,891	$ 48,060,871	$ (448,020)

This schedule breaks out the net patient revenue changes between hospital and physician services.

You will note that the B15-B16 changes by payer may very well differ significantly when examining hospital vs. physician. This is because price changes, reimbursement, and utilization will differ for those services.

Our analysis finds a large increase in hospital Commercial offset by large decreases in Medicare and Medicaid. Mt. Ascutney will explain these trends.

The disproportionate share change has been verified and the reduction has an unfavorable effect on rate.

Mt. Ascutney Hospital & Health Ctr

RATE TREND AND SOURCE OF REVENUES

Rate is the average change in price for services provided.

	Budget 2013 Approved	Budget 2014 Approved	Budget 2015 Approved	Budget 2016 Submitted	Average Annual 2014-2015
Mt. Ascutney Hospital & Health Ctr	7.0%	5.0%	3.2%	5.7%	5.1%
Weighted Average All Hospitals				4.3%	

	Bud 16 Total	Gross revenue from Rates	Net revenue from Rates		Commercial Payer	Self Pay/Other	Medicaid	Medicare	
Hospital Inpatient	6.7%								
Hospital Outpatient	5.7%								
Professional Services	4.7%								
Nursing Home	6.8%								
Home Health	6.4%								
Other	0.0%								
Summary price request	5.7%	$ 4,676,589	$ 2,493,155	→	$ 1,075,027	$ 64,552	$ 17,987	$ 1,335,589	

		Gross Revenue from Other	Net revenue from Other		Commercial Payer	Self Pay/Other	Medicaid	Medicare	DSH
Commercial Ask Negotiations			$ -		$ -	$ -	$ -	$ -	$ -
Utilization			$ (601,632)		$ (465,388)	$ (32,417)	$ (9,515)	$ (94,312)	$ -
Physcian Acquisition or reduction			$ -		$ -	$ -	$ -	$ -	$ -
Other major program change			$ -		$ -	$ -	$ -	$ -	$ -
Free care			$ (128,018)		$ -	$ -	$ -	$ -	$ (128,018)
Bad debt			$ (741,431)		$ -	$ -	$ -	$ -	$ (741,431)
Dispro share change			$ (86,161)		$ -	$ -	$ -	$ -	$ (86,161)
Other NPR changes			$ (1,383,933)		$ (596,740)	$ (35,832)	$ (9,984)	$ (741,376)	$ -
Other changes *			$ -		$ -	$ -	$ -	$ -	$ -
Other changes *			$ -		$ -	$ -	$ -	$ -	$ -
Other changes *			$ -		$ -	$ -	$ -	$ -	$ -
Other changes *			$ -		$ -	$ -	$ -	$ -	$ -
Summary Other (non-price) request		$ 3,250,272	$ (2,941,175)	→	$ (1,062,128)	$ (68,249)	$ (19,500)	$ (835,689)	$ (955,610)
Total NPR Increase Due to Price and Other		$ 7,926,861	$ (448,020)	→	$ 12,899	$ (3,697)	$ (1,513)	$ 499,900	$ (955,610)

The rate request is 5.7% with a 6.7% increase budgeted for inpatient, a 5.7% increase budgeted for outpatient services, a 4.7% increase for physician services, a 6.8% for nursing home and 6.4% for home health. The rate is expected to increase NPR by $2.5 million.

The rate increase is effectively offsetting loss of NPRs due to utilization, bad debt and free care, and payer mix of service changes. As a result, the NPR will decrease $0.5 million.

Mt. Ascutney Hospital & Health Ctr

UTILIZATION & STAFFING

	2012A	2013A	2014A	2015B	2015P	2016B	B15-B16 Change
Utilization							
ADJUSTED ADMISSIONS	6,111	6,625	7,675	7,795	7,336	7,264	-6.8%
ACUTE ADMISSIONS	386	352	350	405	355	366	-9.6%
AVERAGE LENGTH OF STAY	3.8	3.7	3.2	3.2	3.5	3.5	10.9%
OUTPATIENT OPERATING ROOM PROCEDUI	-	-	-	1,818	1,805	1,939	6.7%
LABORATORY TESTS	76,060	83,887	92,513	77,243	63,319	67,598	-12.5%
EMERGENCY ROOM VISITS	5,552	5,464	5,243	5,277	4,684	4,830	-8.5%
RADIOLOGY-DIAGNOSTIC & CT SCANS	11,339	641	12,853	12,753	12,607	12,812	0.5%
MRIs	-	-	-	-	-	-	0.0%
PHYSICIAN OFFICE VISITS	-	-	-	2,329	62,793	65,120	2696.0%
CLINIC VISITS	58,598	-	-	52,138	-	-	-100.0%
Staffing							
NON-MD FTE	338	334	312	320	311	314	-5.6
TRAVELERS	3.0	-	-	-	-	-	0.0
RESIDENTS & FELLOWS	-	-	-	-	-	-	0.0
MLPs	-	-	-	-	-	-	0.0
PHYSICIAN FTEs	19.2	22.0	21.1	24.0	23.1	21.6	-2.4
TOTAL MD AND NON MD FTES	360.6	355.6	333.6	343.9	334.6	336.0	-8.0
SALARY PER FTE - NON-MD	53,008	52,295	56,178	56,621	56,932	58,878	4.0%
SALARY & BENEFIT PER FTE - NON-MD	69,543	67,512	73,385	74,356	73,892	78,227	5.2%
FTES PER ADJUSTED OCCUPIED BED	5.3	5.0	4.7	4.7	4.4	4.5	-4.9%
FTES PER 100 ADJUSTED DISCHARGES	5.5	5.0	4.1	4.1	4.2	4.3	5.4%

Budgeted 2016 utilization (adjusted admissions) shows a decline from 2015 budget levels.

There is an increase in length of stay, explained as a shift in the type of patient they are caring for. Many of the changes are related to the changing shift of payer mix to which the hospital will be addressing.

Non MD staffing is decreasing by 6 and MDs are decreasing by 2.

Productivity indicators are mixed, but most are favorable.

Mt. Ascutney Hospital & Health Ctr

BALANCE SHEET & INDICATORS

	2014A	2015B	2015P	2016B
Cash & Investments	$2,812,066	$3,753,431	$2,375,247	$1,811,298
Total Current Assets	$10,529,215	$10,634,649	$9,963,914	$9,797,829
Total Board Designated Assets	$14,898,301	$14,832,977	$16,077,938	$16,837,525
Total Net, Property, Plant And Equi	$11,549,113	$15,934,980	$15,187,193	$13,828,609
Other Long-Term Assets	$2,228,173	$2,142,604	$2,262,812	$2,246,008
Total Assets	$39,204,802	$43,545,210	$43,491,857	$42,709,971
Total Current Liabilities	$8,169,713	$9,964,671	$9,729,361	$10,074,026
Long-Term Debt	$8,401,684	$9,977,683	$11,061,889	$10,617,357
Other Noncurrent Liabilities	$6,302,707	$3,046,050	$4,787,824	$2,435,664
Total Fund Balance	$16,330,698	$20,556,806	$17,912,783	$19,126,450
Total Liabilities and Equities	$39,204,802	$43,545,210	$43,491,857	$42,253,497

The hospital's overall balance sheet shows a continued improvement in net assets (fund balance).

Debt is increasing and cash is steady. Board Designated Assets are increasing as non-current liabilities have been reduced.

Note: The letter we have received about the possible budget change indicates that the balance sheet may be updated to reflect higher valued capital assets.

Hospital				
Net Increase/Decrease in Cash	$ (966,135)	$ 1,978,372	$ (436,819)	$ (2,398,607)
Days Cash on Hand	138	141	144	141
Cash to Long Term Debt	2.1	1.9	1.7	1.8
Long Term Debt to Capitalization	34.0%	32.7%	38.2%	35.7%
Debt Service Coverage Ratio	3.1	4.8	3.8	2.9

System Average				
Net Increase/Decrease in Cash	$ 54,485,472	$ 74,776,400	$ 21,398,061	$ (11,067,200)
Days Cash on Hand	176	181	185	180
Cash to Long Term Debt	1.9	1.6	1.7	1.7
Long Term Debt to Capitalization	29.6%	32.3%	32.6%	31.3%
Debt Service Coverage Ratio	3.3	3.1	2.9	2.8

Cash is expected to maintain its level in Budget 2016. Debt indicators show an unfavorable trend as the hospital borrowed some funds.

Cash on hand is less than the system average.

Debt measures are slightly unfavorable compared to the system.

Mt. Ascutney Hospital & Health Ctr

CAPITAL BUDGET

	2014 Actuals	2015 Budget Approved	2015 Projection	2016 Budget	2017 Plan	2018 Plan	2019 Plan
Non-Certificate of Need Capital Purchases	$1,526,245	$1,948,687	$1,357,521	$2,376,200	$3,264,000	$2,597,000	$860,000
Certificate of Need Capital Plans		$4,559,312	$5,697,942	$303,963	$0	$0	$0
Total Capital Purchases	$1,526,245	$6,507,999	$7,055,463	$2,680,163	$3,264,000	$2,597,000	$860,000

Hospital					
Age of Plant (years)	9.6	8.9	9.9	13.7	helps understand the status of all fixed assets
Capital Expenditures to Depreciation	61.0%	69.2%	49.7%	105.5%	helps to understand current level of capital spend
Capital Cost % of Budget	6.1%	6.4%	6.4%	5.6%	helps understand relative share of depr & interest

System Average				
Age of Plant (years)	10.2	10.9	11.0	11.9
Capital Expenditures to Depreciation	80.6%	122.4%	131.0%	95.1%
Capital Cost % of Budget	5.9%	6.0%	5.9%	5.8%

Age of plant has been favorable compared to the Vt. hospital system except for a large unfavorable increase in 2016. The recent investment in the CON should have a favorable effect. The hospital will explain.

Mt. Ascutney has been underspending on capital the last few years. Capital cost % is higher than the system average, but improving.

All of their capital spending is planned to be building improvements and equipment under $500,000. There is $304,000 budgeted for CON for the recently approved 2015 project.

Non Certificate of Need Detail	2016 Budget	2017 Plan	2018 Plan	2019 Plan
Construction in Progress (Non-CON>$500K)	$0	$0	$0	$0
Land & Land Improvements (Non-CON >$500K)	$0	$0	$0	$0
Total Buildings & Building Improvements (Non-CON >$500K)	$0	$0	$0	$0
Total Fixed Equipment (Non-CON >$500K)	$0	$0	$0	$0
Total Major Movable Equipment (Non-CON >$500K)	$0	$0	$0	$0
Other Non CON Items under $500,000	$2,376,200	$ 3,264,000	$ 2,597,000	$ 860,000
Total Non-Certificate of Need Capital Purchases	$ 2,376,200	$ 3,264,000	$ 2,597,000	$ 860,000

Certificate of Need Plans				
Total Certificate of Need Proposals	$ 303,963	$ -	$ -	$ -

MT. ASCUTNEY HOSPITAL
AND HEALTH CENTER
A Dartmouth-Hitchcock Affiliate

August 13, 2015

Attn: Mr. Michael Davis, Director of Health System Finances
Green Mountain Care Board
89 Main Street, Third Floor, City Center
Montpelier, Vermont 05620

Re: Potential Budget Change

Dear Mr. Davis,

This letter serves to provide some additional information and context to our discussion of last week regarding potential changes to the FY2016 budget. We provide this information in the spirit of transparency and due to the potential materiality of the changes.

A few months ago, we advised your office that we anticipated a large increase in operational expense that would change our FY14 results, our FY15 performance, and affect our expenses for many years to come. The expense increase was related to our affiliation with Dartmouth-Hitchcock Health (D-HH) which was effective 7/1/2014. As part of the affiliation, and in accordance with Generally Accepted Accounting Principles (GAAP), we are obligated to be "appraised" to establish our current Fair Market Value (FMV), to recognize that change in value on our balance sheet ("Step Up"), as well to record the associated depreciation on our Profit and Loss Statement (P&L). That valuation, performed by Duff and Phelps, initially resulted in a Step Up of approximately $14m of improvement to our balance sheet and an operational expense hit of approximately $800k per year in depreciation. As you can imagine, we were greatly concerned about the impact of these material amounts.

As we discussed previously, this is a paper, non-cash transaction but does hit the P&L as a legitimate expense according to GAAP and Financial Accounting Standards Board (FASB) standards. We provided your office with a white paper explaining the concept and the requirement to do this. Subsequently, we began to review in detail the valuation along with D-HH management and the consulting firm. Along the way, it was determined that this could be absorbed at the D-HH consolidated level and that it would not affect our P&L. We were initially advised to NOT include this in our internal budget nor to include it in our budget submission to the Green Mountain Care Board (GMCB).

Shortly after submitting our budget to the GMCB with a small margin of $50k on operations, we were informed by D-HH that we would need to include this in our budget for transparency and efficiency. After several meetings and a great deal of analysis, we were able to reduce the Step Up to approximately $4m and the annual depreciation increase to approximately $200k per year. These amounts reflect the reality of the value of the assets of Mt. Ascutney Hospital and Health Center (MAHHC) and are a great improvement over the initial projections. I previously informed you that this had taken place and you told me to send this letter and to advise you as to how this would affect our budget as submitted.

Because MAHHC had significant rate increases over the years prior to the arrival of our current leadership team, we have made great efforts to not only comply with the net patient revenue growth

expectations of the GMCB, but also to bend our pricing curve to be more in line with market and to set ourselves in a better place relative to Healthcare Reform and expected reimbursement methodologies in the future. Because of this, we do not feel that we can increase our prices more than what we submitted to the GMCB in July of this year.

Without a price increase, and with recognition of the additional depreciation expense, our budgeted operational margin would obviously reduce from $50k to approximately -$150k. This clearly adds pressure to an organization that is struggling to produce reasonable margins. That being said, we are committed to our current plan of complying with state expectations, following our glide path to new reimbursement models, partnering with D-HH, providing appropriate services to our community and working through operational pressures through effective management and planning.

After our last conversation, D-HH and MAHHC, along with our audit firms, have identified other GAAP and FASB standards related to our affiliation which present some potential offsets to the additional depreciation expense of $200k per year. These offsets are based on the concept of "Fresh Start" accounting. This standard is a FASB-driven accounting application for companies coming out of bankruptcy or through mergers and affiliations. We have reviewed the related pronouncements and methodology with D-HH and our audit firms and it appears that this is applicable to our affiliation. We are now evaluating a number of the potential benefits which include offsetting the aforementioned increase in depreciation expense. Predominantly, Fresh Start accounting will reduce benefit expense in the area of pension expense.

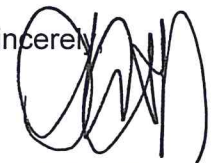
If adopted by our Board, these entries will affect the last 3 months of FY14 (we will restate our financial statements for that year), all of FY15, Budget FY16, and ongoing. The annual impact of both the Fresh Start accounting offsets and the increased depreciation expense will continue for many years, diminish over time and decrease as assets age and are retired.

At this point, we still have a fair amount of work left to identify a final increase in depreciation expense, determine the impact of Fresh Start accounting, and to get appropriate Board approval here at MAHHC and at D-HH. Accordingly, we will not have final numbers and approval in time for the hearings later this month. These are new concepts to us and D-HH which require a great deal of research and study to get right. We hope to have draft entries in early September and approval by our Boards of such in October. We will, of course, provide your office and the GMCB updates and pertinent information as it is available.

We apologize for the inconvenience that this may cause the GMCB and for you and your staff. I expect that there will be questions and additional clarification. D-HH is willing to accompany us to a meeting with GMCB staff as needed to provide some understanding and comfort to the GMCB. We can talk about scheduling this as needed.

Please let us know if there are additional requests or concerns. Thank you.

Sincerely,



David C. Sanville
C.F.O./V.P. Finance

cc: GMCB Budget 2016 File